

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

KeySpan Energy Delivery New England

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D.T.E. 02-32

**POST-HEARING BRIEF OF
KEYSPAN ENERGY DELIVERY NEW ENGLAND**

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Dated: June 24, 2002

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I. INTRODUCTION

On May 10, 2002, KeySpan Energy Delivery New England (the “Company”) filed with the Department of Telecommunications and Energy (the “Department”) proposed tariffs for its Massachusetts gas companies: Boston Gas Company (“Boston Gas”), Colonial Gas Company (“Colonial”) and Essex Gas Company (“Essex”), each doing business as KeySpan Energy Delivery New England.¹ The proposed tariffs are designed to reduce the distribution rates set forth in the current tariffs of Boston Gas, Colonial and Essex in order to maintain revenue neutrality as the Company merges the customer-information systems that will serve approximately 2 million customers in Massachusetts, New Hampshire and New York City.

As described below, the Customer Related Information System (“CRIS”) more accurately calculates customer bills and provides short- and long-term benefits for Massachusetts and New Hampshire customers.² Because the implementation of the new

¹ On May 23, 2002, Essex filed substitute proposed tariffs and supporting materials in Exhibit KEDNE-1, at Essex Gas, Attachments 1 through 6.

² The New Hampshire Public Utilities Commission approved similar tariff changes for KeySpan’s New Hampshire service territory on June 7, 2002, finding, inter alia, that “[c]ustomers will be better served through more equitable billing...” (Exh. DTE-1-4 [Supplement], Attachment at 5).

billing methodology would produce a revenue impact, the Company is proposing to implement tariffs reflecting reduced rates to offset that revenue impact. As proposed, the tariffs would become effective for bills rendered on or after July 1, 2002, to correspond with the conversion to CRIS.

II. PROCEDURAL HISTORY

On June 12, 2002, the Department conducted public and evidentiary hearings at its offices. At the evidentiary hearing, the Company presented two witnesses: Robert Ponticelli, Jr., Manager of Customer Accounting, who testified about KeySpan's decision to convert to CRIS and the benefits that customers would experience as a result of that conversion; and Ann E. Leary, Manager of Rates, who testified on the development of the proposed rates that ensures that the conversion to the CRIS billing methodology will be revenue neutral. The Attorney General of the Commonwealth of Massachusetts (the "Attorney General") filed a Notice of Intervention pursuant to G.L. c. 12, § 11E on June 11, 2002.

In addition to the sworn testimony presented at the hearing, the evidentiary record consists of 36 exhibits, including the Company's Explanatory Statement and supporting documentation demonstrating that the proposed tariff reductions would neutralize the revenue impact of the conversion, and the Company's responses to information and record requests. On June 21, 2002, the Attorney General filed post-hearing comments on the Company's proposal, to which the Company is responding in Section IV.D of this brief.

III. BACKGROUND

A. Overview of the Customer-Information Systems Currently Utilized in Massachusetts, New Hampshire and New York City

In January 1992, Boston Gas put into operation the Customer Services System (“CSS”) to conduct customer-related transactions, including billing and collection activities, emergency and repair services, account maintenance, service turn-ons and shut-offs, and general ledger activities (see Tr. at 19-20). Boston Gas Company, D.P.U. 93-60, at 14 (1993). In 1998 and 1999, Eastern Enterprises (“Eastern”), the parent company of Boston Gas, completed its mergers with Colonial and Essex. Eastern-Essex Acquisition, D.T.E. 98-27 (1998); Eastern-Colonial Acquisition, D.T.E. 98-128 (1999). As part of the effort to consolidate and streamline operations following the mergers, the customer-information systems of Colonial and Essex were converted to the CSS (Tr. at 20, 66-68). In 2000, Eastern completed its mergers relating to EnergyNorth Natural Gas, Inc. (“EnergyNorth”) in New Hampshire and KeySpan Corporation in New York. Shortly after the mergers, the EnergyNorth system was converted to CSS and an initiative was undertaken to convert CSS to CRIS (id.).

The billing methodology applied by CRIS has been in place in New York City since 1973, although the system has undergone a series of significant modifications and enhancements since that time (Tr. at 23-24). In that regard, the current configuration of CRIS represents the third generation of system enhancements (id.). As a result, CRIS offers several advantages in establishing a technology infrastructure that promotes efficiency and enables a high-level of customer service across the service territory (Exh. DTE-1-2). As described below, one of the aspects of CRIS is that bills are computed more precisely on the number of days in a customer’s billing cycle. Because this

refinement would have a small, but measurable revenue impact, the Company has proposed the subject rate reductions to neutralize that impact.

B. Conversion to CRIS

The conversion of the New England CSS system to CRIS is one element of a comprehensive information-technology infrastructure plan being implemented to fulfill the business and customer requirements of the KeySpan system (Exh. DTE-1-2). In devising that plan, the decision to migrate the New England system to the CRIS platform involved a number of considerations. Chief among those considerations was the need to identify and implement a customer-service system that would serve as a viable platform for the achievement of long-term customer-service and efficiency goals (*id.*; Exh. KEDNE-1 at 4; Tr. at 27-35; RR-AG-8).

Specifically, a number of factors were evaluated including the annual costs to maintain two systems, the relative functionality of the systems and the remaining life expectancy of the existing technologies (Tr. at 27-35). CRIS was selected as the appropriate technology because it encompasses a relational database management architecture (“DB2”), real-time and event-driven processing, and a general capability to support change and the accommodation of new processes and technologies, among other considerations (Tr. 21-23). In comparison, CSS utilizes an older database management architecture (“IDMS”) that is less flexible to use and change (*id.*). The more sophisticated database architecture of CRIS provides greater flexibility and efficiency in retrieving and managing customer data and allows system components to interface in a seamless manner (Exh. DTE-1-2; Tr. at 22). Moreover, the existing features of CRIS provide several advantages, including web-enabled customer self-service features and on-

line work management features for back-office operations (Exh. DTE-1-2). As described in more detail below, both customers and customer-service representatives are able to access customer-account information on a real-time and interactive basis. Accordingly, KeySpan determined that the conversion to CRIS would provide benefits to both the Company and its customers in the short and long term.

The conversion to CRIS required a significant commitment of time and resources and encompassed multiple phases that progress to an optimal point for the actual conversion (Exh. DTE-1-1). These phases include Analysis, Design, Development, Testing, Training, Implementation and Post-Conversion support (id.). As a result of this process, the conversion became technically and operationally feasible as of June 2002 (Tr. at 10-11). The Company selected the July 4th weekend to complete the conversion for several reasons, including consideration of the technical readiness of the project team and the Company's experience with low-volume customer calls over the July 4th holiday weekend (Exh. DTE-1-1; Tr. at 9-10). In addition, the July 4th period was selected because the system conversion would occur at the end of the month and the quarter billing cycles (Tr. at 11). This would enable the Company to close its books for the month and quarter using data from the existing customer systems (id.). For these reasons, the Company determined that implementation over the July 4th holiday would minimize the potential for customers to experience any type of disruption during the actual conversion of the system.

IV. ANALYSIS

A. The Tariff Filing Results in Just and Reasonable Rates

1. The Tariff Changes Are Necessary To Avoid a Revenue Impact

As noted above, the conversion to CRIS will involve a transition to a more refined calculation methodology for customer bills. Currently, if a customer's billing cycle is between 26 and 34 days, monthly, fixed charges are billed as if the cycle were 30 days (Exh. KEDNE-1, at 5). In cases where the billing cycle is less than 26 days or more than 34 days the bills are computed based on the actual number of days in the billing cycle. This means that, under the present methodology, the billed monthly charge is the same regardless of whether the number of days being billed is 26 or 34 (or any number in between). Similarly, the break-point between consumption blocks does not change if the billing period is between 26 and 34 days. This means, for example, that consumption up to 150 therms for Boston's R-3 customers is billed at the headblock rate and consumption in excess of that threshold is billed at the tailblock rate regardless of the number of days in the cycle, although the block break (150 therms) is designed on the basis of a uniform 30-day billing cycle (*id.* at 5-6; Exh. DTE-1-5).

Because customers will be billed for the actual number of days in the billing cycle under CRIS, the use of currently effective rates in conjunction with a billing cycle that is greater or less than 30 days has the potential to produce an increase in revenues over the course of a year (Exh. KEDNE-1, at 5). This situation would occur because when bills are calculated based on the CRIS billing method, the usage period will average slightly

more than 30 days per month.³ Thus, the Company's proposed rate tariffs are designed to ensure that the conversion to CRIS is revenue neutral.

2. The Rate Changes Calculated By the Company Are Appropriate and Will Ensure That the Conversion to CRIS Is Revenue Neutral

To calculate new rates that ensure revenue neutrality, the Company used billing determinants (i.e., customer charges, headblock and tailblock volumes) for 2001 under normal weather conditions (Tr. at 126-127; Exh. KEDNE-1, at 8-9; Exh. DTE-1-12). There will be no change in the total volumes of gas billed under CRIS. However, the adjustment of the headblock and tailblock breakpoint based on the number of days in the billing cycle requires the reallocation of volumes between the headblock and tailblock to achieve revenue neutrality (Exh. DTE 1-8; Tr. at 132). Moreover, the record establishes that for accuracy, calculating rates using the Company's most recent billing determinants is essential and consistent with Department precedent (Exh. DTE-1-8 (and cases cited therein)).

Although the overall impact of the conversion to CRIS (when coupled with the proposed rate reductions) is revenue neutral, i.e., no revenue impact for any of the three distribution companies, there may be some de minimus bill impacts on individual bills in a given year based on extreme assumptions regarding the number of days in the billing cycle and individual customer use profiles (Exh. DTE 2-1; Tr. at 137-138). To the extent that a billing cycle has a greater number of days in one year, it will have a smaller number in other years, since the total number of days in a year will average, over time, to 365.25

³ The 30-day billing cycle assumes that rates will be collected over twelve 30-day months and a 360-day year. The new billing process collects revenues on a real calendar year of 365 (or 366) days (id.; Exh. DTE-1-5; Tr. 137; RR-DTE-8).

(including leap years). Therefore, cycles with the highest number of days in one year will experience a lower-than-average number of days in another year (id.; Tr. at 137-139). Correspondingly, customers that may receive slightly higher bills in one year will likely experience slightly lower bills in a succeeding year. Thus, even the de minimus bill impacts that may be experienced by customers in a particular year will be revenue neutral to individual customers over time.⁴

B. CRIS Will Result in Significant Short- and Long-Term Customer Benefits

In this proceeding, the Company is seeking Department approval of the proposed rate reductions, and not the Company's decision to convert to the CRIS system⁵ or the prudence of the costs incurred to implement CRIS.⁶ Although not directly seeking Department approval of the conversion to CRIS, the Company has demonstrated that the implementation of CRIS will result in short- and long-term benefits to customers. Because CRIS will collect, store and integrate customer data for billing, financial, accounting and operational purposes, the Company will have access to information in a more timely fashion, effectively improving the Company's ability to serve customers and

⁴ For example, for the residential classes, the most extreme impacts are generally less than 1.0 percent, or less than \$2.00 annually (Exh. DTE 2-1). For commercial classes, except those with monthly demand charges, the impact is also less than 1.0 percent. Boston Gas' two commercial classes with monthly contract demand charges show impacts under 2.0 percent (id.).

⁵ See e.g., New England Telephone v. Department of Public Utilities, 327 Mass. 81, 97 NE 2d 509 (1951); Fitchburg Gas and Electric Light Company v. Department of Public Utilities, 375 Mass. 571, 380 NE 2d 1304 (1978).

⁶ The Department will have an opportunity to investigate the prudence of the costs incurred to implement the CRIS billing methodology in KeySpan's next general rate case filing. This is consistent with the Department's review of Boston Gas' decision to implement the CSS method currently in use. When Boston Gas converted to the CSS system, the Department's review of the billing methodology was limited to its investigation of the costs to implement CSS. The Department reviewed those costs in Boston Gas Company, D.P.U. 93-60 (1993) (RR-DTE-4).

respond to their inquiries on a timely and cost-efficient basis (Exh. DTE-1-2, at 1; Tr. 29-30).

Moreover, the record shows that the conversion to CRIS will enable the Company to improve the balanced-billing program to reflect more accurately the customer's consumption patterns and to help minimize settlement payments that may be due from or to the customer (Exh. DTE-1-2, at 2). Similarly, the conversion to CRIS would enable additional customer-service enhancements including updating billing information on a real-time basis (id.; Tr. 28-29). When a customer calls the Company with a billing question, the Company's customer-service representative will have the ability to review the customer's billing question while the customer-service representative and the customer simultaneously view the actual bill image online (id.). Further, the conversion to CRIS will permit customers to pay their bills through the website and to take advantage of the account-management services available through the Company's web page (Exh. DTE-1-2, at 2-3; Tr. 29).

As a result of the conversion to a common customer-service system, KeySpan will have the ability to train all customer-service representatives to meet the needs of the combined customer base. Thus, KeySpan will resolve billing and service-related issues on a standardized basis throughout its service territories (Exh. DTE-1-2, at 4).

In the long-term, the elimination of redundant systems and related costs and the establishment of a more efficient customer-service infrastructure will reduce the Company's cost of providing service to customers (Exh. DTE-1-2, at 4; Exh. KEDNE-1, at 4; Tr. 31-33; RR-AG-8; see also Exh. DTE-1-4 [Supplement], Attachment at 4-5). Therefore, the conversion to CRIS will result in a higher level of customer-service

functionality that could not have been achieved without significant investment in the upgrade or replacement of the CSS system.

C. Potential Customer Confusion Will Be Minimized by Aggressive Customer-Education Efforts

The calculation of customer bills will be refined under CRIS, and there will be a few changes in the bill format and presentation to accommodate that change (Exh. KEDNE-1, at 12, Attachment Bill Format). To prepare for any inquiries that may occur regarding billing changes resulting from the implementation of CRIS,⁷ the Company is conducting intensive training for all personnel who work in the customer-service areas (Exh. KEDNE-1, at 13; Tr. 95-100). This extensive, week-long training educates and informs employees about CRIS so that billing changes can be accurately and expeditiously explained to customers (*id.*).

The Company has also committed to work closely with the Department's Consumer Division in the design of the bill insert that will provide the customer with details about the conversion and the minor changes that customers can expect on their bill presentation (Exh. KEDNE-1 at 12; Tr. at 100-102).

Lastly, the Company stated that it will minimize customer terminations for the first 30 days after the conversion to CRIS to provide customers with additional time to resolve any billing questions that may arise under the new billing methodology (Exh. KEDNE-1 at 13).

⁷ The billing methodology utilized under CRIS has been used in KeySpan's New York City service territory since 1973, and there has been little or no customer confusion or adverse consumer reactions (Exh. KEDNE-1, at 12; fn.11). In addition, this billing methodology is widely used by utilities in New York (Exh. DTE-1-16).

D. Response to Attorney General's Comments

Recognizing the Company's efforts to improve its customer services, and information and billing systems, the Attorney General's comments support the tariff changes proposed in this proceeding. In the words of the Attorney General, "[t]he Department should approve [the Company's] proposed rate reduction" (Attorney General Comments at 5).

The Attorney General's comments also address issues relating to the implementation of the new rates and subsequent Department review that require a response. The first response relates to the issue of revenue neutrality. The Attorney General acknowledges that the Company has "appropriately" proposed rates that are revenue neutral, but proposes that the Company compute, after the fact, the impact of the changes on a customer-by-customer basis (Attorney General Comments at 2). The Attorney General would have the Company refund to customers any increase, but absorb any decrease in revenue (*id.*). This proposal should be rejected for a number of reasons.

First, since the Company's proposed tariffs are revenue neutral over time, the Attorney General's proposal of reducing any revenue increases that may occur in any given year for a particular customer, while ignoring any revenue shortfalls, would destroy the revenue neutrality of the rates. Moreover, the costs that would be incurred to make these small annual adjustments would do nothing other than reduce the efficiencies that will be gained by consolidating systems. The expenditure of significant time and dollars to correct a non-existent problem cannot be justified. There is no record evidence that could warrant the Department's imposition of the enormous administrative burden of computing individual customer impacts.

Additionally, the Attorney General's proposal is inconsistent with ratemaking precedent in Massachusetts regarding the treatment of base rates. The filed rate doctrine and principles of retroactive ratemaking prohibit the reconciliation of base rates, which is inherent in the Attorney General's proposal. See, e.g., Associated Indus. of Mass., Inc. v. Commissioner of Ins., 403 Mass. 37, 45 (1988) ("As a matter of law, retroactive adjustments to prior approved rates may not be awarded absent specific statutory authorization. See Lowell Gas Co. v. Attorney Gen., 377 Mass. 37, 45 (1979); Boston Edison Co. v. Department of Pub. Utils., 375 Mass. 1, 50, cert. denied, 439 U.S. 921 (1978); Metropolitan Dist. Comm'n v. Department of Pub. Utils., 352 Mass. 18, 26 (1967)"). Base rates are always designed based on historical billing determinants and projected bill impacts are always subject to the ebb and flow of actual customer use patterns. The Attorney General cites no precedent for the reconciliation of base rates to ensure that individual bill impacts do not deviate from projections based on historical data. The Attorney General's suggestion is asymmetrical and unfair. The idea that only increased revenues be reconciled, and not offsetting decreases, must be rejected.

The Attorney General also raises issues regarding customer-education efforts, bill formats⁸ and improvements in the budget-billing program with the conversion to CRIS. None of these issues requires Department action at this time. As described above and detailed in the record of this case, the Company has taken aggressive and meaningful

⁸ The Attorney General states that under the new system, bills do not show the tariffed rates, "preventing the customer from determining the correct amount for the related charges" (Attorney General Comments at 3). Although the customer notification will fully explain the billing changes and permit customers to determine whether they are being billed properly, it should be noted that the existing system also prorates bills for every customer, at least twice per year, when seasonal rates are changed.

steps to ensure that customers will receive ample notice of the impact of the CRIS billing methodology,⁹ and that the Company's customer representatives will be fully prepared to answer any customer inquiries that may arise. The Company has worked with both the Attorney General and the Department's Consumer Division to seek input and coordinate these customer-education efforts. It is impossible to reprogram computer systems in order to alter formats before the implementation date, but the Company will closely monitor customer response and if any fine-tuning of customer-information activities, notices or bill format is warranted, the Company will work with the Attorney General and the Department's Consumer Division to develop and implement appropriate changes.¹⁰

On the issue of budget billing, CRIS offers customers increased flexibility as to when they begin budget billing plans (Tr. 28). The Attorney General objects to the frequency of adjustments to the budget-billing amount during the course of the year and suggests that such adjustments should occur only "if there have been significant changes in consumption levels or gas prices" (Attorney General Comments at 3). Although CRIS does provide for one additional adjustment per year, the Company will adjust the budget-billing amount only when a significant balance or credit is projected.

Two final issues require response. The Attorney General states that the Company should compensate customers through a payment of \$25 for any errors that occur as a result of the conversion to CRIS (Attorney General Comments at 4). This is both

⁹ In response to the Attorney General's concerns about the change in the customer account number (Attorney General Comments at 4), the Company's notice already alerts customers that their account number will change (RR-AG-9, Attachment).

¹⁰ Because certain types of changes, especially those relating to bill formatting, require significant reprogramming efforts, consultation and planning is of paramount importance.

unnecessary and duplicates service penalties that already are in place in accordance with the Department's service-quality initiatives. The service-quality plans in place for the Company already include penalties for complaints brought before the Department's Consumer Division and for billing adjustments. See Sections III.A and III.B of the Company's Service Quality Plans filed with the Department on March 1, 2002, and approved by the Department in D.T.E. 98-84, at 2 (Letter Order dated April 17, 2002). In this case, any additional penalties would be duplicative, outside the scope of this proceeding and beyond the legal authority of the Department. As to the impact of the billing changes on cash working capital and postage rates (Attorney General Comments at 4-5), the Company has already demonstrated that there will be no impact on cash working capital (RR-AG-6), and postage rates are not distance sensitive.

V. CONCLUSION

As demonstrated by the record evidence, the proposed rate reductions will ensure that the new billing method being introduced to New England customers will be revenue neutral and that proper planning and customer-education efforts will make for a smooth transition to improved operations. Moreover, as the Company has shown, the implementation of CRIS is a significant step toward improving the reliability and efficiency of service to the Company's customers.

Accordingly, the Company requests that the Department approve the proposed tariffs, effective July 1, 2002.

Respectfully submitted,

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